

2006 AUDIT
027045

2006-01-01 000

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

**For the Years Ended
December 31, 2006 and 2005**

70002/210101000

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Electronic Frontier Foundation, Inc.
San Francisco, California

We have audited the accompanying statements of financial position of Electronic Frontier Foundation, Inc. (a nonprofit public benefit corporation), as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Frontier Foundation, Inc. as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of functional expenses is presented for the purposes of additional analysis and is not a required part of the basic financial statements of Electronic Frontier Foundation, Inc. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bunker & Company

July 31, 2007

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION
December 31, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 959,918	\$ 668,203
Grants receivable (Note 1)	-	207,500
Prepaid expenses	28,578	12,565
Inventory (Note 2)	20,098	21,492
Total current assets	<u>1,008,594</u>	<u>909,760</u>
Investments (Note 3)	2,001,630	1,066,042
Deposits	13,000	13,000
Equipment and leasehold improvements, net of accumulated depreciation of \$137,212 in 2006 and \$117,264 in 2005 (Notes 1 and 4)	<u>453,946</u>	<u>443,932</u>
Total assets	<u>\$ 3,477,170</u>	<u>\$ 2,432,734</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 32,768	\$ 54,614
Accrued vacation liability (Note 5)	<u>33,850</u>	<u>8,651</u>
Total liabilities	<u>66,618</u>	<u>63,265</u>
Net assets (Note 6):		
Unrestricted net assets:		
Undesignated	1,445,034	231,604
Board-designated:	<u>1,345,766</u>	<u>1,345,766</u>
Total unrestricted net assets	2,790,800	1,577,370
Temporarily restricted net assets	<u>619,752</u>	<u>792,099</u>
Total net assets	<u>3,410,552</u>	<u>2,369,469</u>
Total liabilities and net assets	<u>\$ 3,477,170</u>	<u>\$ 2,432,734</u>

The accompanying notes are an integral part of these financial statements.

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES
For the year ended December 31, 2006

	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE AND TRANSFERS			
Public support:			
Foundation and corporation grants	\$ 824,127	\$ 71,817	\$ 895,944
Donations and contributions	<u>1,434,827</u>	<u>42,815</u>	<u>1,477,642</u>
Total public support	<u>2,258,954</u>	<u>114,632</u>	<u>2,373,586</u>
Revenue:			
Memberships	882,711	-	882,711
Investment income (Note 3)	126,781	-	126,781
Litigation settlement	430,545	-	430,545
Loss on disposal of fixed assets, net (Note 4)	(7,400)	-	(7,400)
Miscellaneous	<u>2,642</u>	<u>-</u>	<u>2,642</u>
Total revenue	<u>1,435,279</u>	<u>-</u>	<u>1,435,279</u>
Net assets released from restriction (Note 7)	<u>286,979</u>	<u>(286,979)</u>	<u>-</u>
Total support, revenue and transfers	<u>3,981,212</u>	<u>(172,347)</u>	<u>3,808,865</u>
EXPENSES			
Program services	2,251,634	-	2,251,634
General and administrative	283,108	-	283,108
Fundraising	<u>233,040</u>	<u>-</u>	<u>233,040</u>
Total expenses	<u>2,767,782</u>	<u>-</u>	<u>2,767,782</u>
Change in net assets	1,213,430	(172,347)	1,041,083
Net assets, beginning of year	<u>1,577,370</u>	<u>792,099</u>	<u>2,369,469</u>
Net assets, end of year	<u>\$ 2,790,800</u>	<u>\$ 619,752</u>	<u>\$ 3,410,552</u>

The accompanying notes are an integral part of these financial statements.

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES (CONTINUED)
For the year ended December 31, 2005

	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE AND TRANSFERS			
Public support:			
Foundation and corporation grants	\$ 623,017	\$ 259,398	\$ 882,415
Donations and contributions	<u>1,150,070</u>	<u>-</u>	<u>1,150,070</u>
Total public support	<u>1,773,087</u>	<u>259,398</u>	<u>2,032,485</u>
Revenue:			
Memberships	635,605	-	635,605
Investment income (Note 3)	77,366	-	77,366
Litigation settlement	60,000	-	60,000
Loss on disposal of fixed assets, net	(41,188)	-	(41,188)
Miscellaneous	<u>10,248</u>	<u>-</u>	<u>10,248</u>
Total revenue	<u>742,031</u>	<u>-</u>	<u>742,031</u>
Net assets released from restriction (Note 7)	<u>104,460</u>	<u>(104,460)</u>	<u>-</u>
Total support, revenue and transfers	<u>2,619,578</u>	<u>154,938</u>	<u>2,774,516</u>
EXPENSES			
Program services	2,375,062	-	2,375,062
General and administrative	341,936	-	341,936
Fundraising	<u>186,512</u>	<u>-</u>	<u>186,512</u>
Total expenses	<u>2,903,510</u>	<u>-</u>	<u>2,903,510</u>
Change in net assets	(283,932)	154,938	(128,994)
Net assets, beginning of year	<u>1,861,302</u>	<u>637,161</u>	<u>2,498,463</u>
Net assets, end of year	<u>\$ 1,577,370</u>	<u>\$ 792,099</u>	<u>\$ 2,369,469</u>

The accompanying notes are an integral part of these financial statements.

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,041,083	\$ (128,994)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	30,777	25,253
Unrealized gain on investments	(108,619)	(70,503)
Realized loss on disposal of fixed assets	7,400	44,958
Contribution of marketable equity securities	(562,730)	(179,424)
Changes in assets and liabilities:		
Grants receivable	207,500	(182,500)
Prepaid expenses	(16,013)	7,391
Inventory	1,394	(21,492)
Accounts payable and accrued expenses	(21,846)	12,615
Accrued vacation liability	25,199	8,651
Total adjustments	(436,938)	(355,051)
Net cash provided (used) by operating activities	604,145	(484,045)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchase) sale of investments	(264,239)	259,395
Purchase of equipment and leasehold improvements	(48,191)	(59,420)
Net cash (used) provided by investing activities	(312,430)	199,975
Net increase (decrease) in cash and cash equivalents	291,715	(284,070)
Cash and cash equivalents, beginning of year	668,203	952,273
Cash and cash equivalents, end of year	\$ 959,918	\$ 668,203
Supplementary information:		
Non-cash transactions:		
Contribution of marketable equity securities	\$ 562,730	\$ 179,424

The accompanying notes are an integral part of these financial statements.

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2006 and 2005

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Electronic Frontier Foundation, Inc., a Massachusetts nonprofit public benefit corporation, was founded in July 1990 to work in the public interest to promote online privacy, freedom of expression, and social responsibility. The Corporation's primary sources of revenue are grants and contributions from foundations, corporations and individuals.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

Unrestricted net assets - Net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

Temporarily restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations, (b) from other asset enhancements and diminishments that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Corporation pursuant to those stipulations.

Permanently restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation, (b) from other asset enhancements and diminishments that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

There were no permanently restricted net assets as of December 31, 2006 and 2005.

Method of Accounting - The financial statements of the Corporation are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

Accounts and Grants Receivable - It is the practice of the Corporation to expense uncollectibles only after exhausting all efforts to collect the amounts due. There is no allowance for doubtful accounts and management believes all amounts will be collected in full.

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NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 INVENTORY

	2006	2005
T-shirts	\$ 15,670	\$ 16,463
Cards, stickers, and other clothing items	4,428	5,029
	<u>\$ 20,098</u>	<u>\$ 21,492</u>

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2006 and 2005

NOTE 3 INVESTMENTS

Investments, which are carried at market value and subject to market risk, consist of the following at December 31, 2006 and 2005:

	2006		2005	
	Cost	Market Value	Cost	Market Value
Corporate stocks	\$ 295,685	\$ 295,858	\$ 4,623	\$ 4,479
Mutual funds	1,396,083	1,620,793	600,000	734,448
Government and agency obligations	85,000	84,979	329,198	327,115
	<u>\$ 1,776,768</u>	<u>\$ 2,001,630</u>	<u>\$ 933,821</u>	<u>\$ 1,066,042</u>

The following summarizes the investment income (loss) during the years ended December 31, 2006 and 2005:

	2006	2005
Unrealized gain	\$ 108,619	\$ 70,503
Interest and dividend income	18,162	6,863
	<u>\$ 126,781</u>	<u>\$ 77,366</u>

NOTE 4 EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

<u>Equipment and leasehold improvements, at cost</u>	<u>Leasehold Improvements</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Balance, December 31, 2004	\$ 418,723	\$ 187,026	\$ 605,749
Additions	22,413	37,007	59,420
Disposals	-	(103,973)	(103,973)
Balance, December 31, 2005	441,136	120,060	561,196
Additions	10,000	38,191	48,191
Disposals	-	(18,229)	(18,229)
Balance, December 31, 2006	<u>451,136</u>	<u>140,022</u>	<u>591,158</u>

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2006 and 2005

NOTE 4 EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Continued)

<u>Accumulated depreciation</u>	<u>Leasehold Improvements</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Balance, December 31, 2004	44,352	106,674	151,026
Depreciation expense	10,885	14,368	25,253
Disposals	-	(59,015)	(59,015)
Balance, December 31, 2005	55,237	62,027	117,264
Depreciation expense	11,141	19,636	30,777
Disposals	-	(10,829)	(10,829)
Balance, December 31, 2006	66,378	70,834	137,212
Equipment and leasehold improvements, net	<u>\$ 384,758</u>	<u>\$ 69,188</u>	<u>\$ 453,946</u>

NOTE 5 ACCRUED VACATION LIABILITY

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Corporation. The value of accumulated vacation at December 31, 2006 and 2005, was \$33,850 and \$8,651, respectively.

NOTE 6 NET ASSETS

Unrestricted net assets:

The Corporation has unrestricted net assets that are not subject to donor imposed restrictions. The balance of unrestricted net assets at December 31, 2006 and 2005, was \$2,790,800 and \$1,577,370, respectively. Included in that amount are net assets that have been designated by the Board of Directors to be used for specific purposes, which totaled \$1,345,766 at December 31, 2006 and 2005.

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2006 and 2005

NOTE 6 NET ASSETS (Continued)

Temporarily restricted net assets:

These are contributions which were received with donor stipulations that limit the use of the assets for specific purposes and/or for specific time periods. Temporarily restricted net assets at December 31, 2006 and 2005, are designated for the following uses:

	<u>2006</u>	<u>2005</u>
Prime Number Contest	\$ 487,786	\$ 487,786
Chilling Effects Project	-	29,340
Digital Video Broadcasting Forum	17,334	220,871
Security Training and Organizing Project	-	9,187
Verify the Vote	-	44,915
European Union Intellectual Property Project	49,973	-
FOI work / FLAG project	42,815	-
EVN conference	<u>21,844</u>	<u>-</u>
	<u>\$ 619,752</u>	<u>\$ 792,099</u>

NOTE 7 NET ASSETS RELEASED FROM RESTRICTION

During the years ended December 31, 2006 and 2005, the following temporarily restricted funds were used for their restricted purposes or were held for specific time periods, and they were released to unrestricted net assets:

	<u>2006</u>	<u>2005</u>
Verify the Vote	\$ 44,915	\$ 29,460
Time-restricted funds	-	75,000
Chilling Effects Project	29,340	-
Digital Video Broadcasting Forum	203,537	-
Security Training and Organizing Project	<u>9,187</u>	<u>-</u>
	<u>\$ 286,979</u>	<u>\$ 104,460</u>

NOTE 8 LEASES

The Corporation leases its offices in San Francisco, California under two non-cancelable operating leases that expire July 31, 2010. The Corporation also occupies offices in Washington, DC under short-term leases. Rent expense for the leases for the fiscal years ended December 31, 2006 and 2005, was \$123,886 and \$111,647, respectively.

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2006 and 2005

NOTE 8 LEASES (Continued)

The estimated future minimum payments for the leases for the current and succeeding years are as follows:

<u>December 31,</u>	
2007	\$ 121,972
2008	126,792
2009	131,803
2010	<u> 78,817</u>
	<u>\$ 459,384</u>

NOTE 9 TAX SHELTERED ANNUITY

The Corporation has established a 403(b) deferred income plan for all eligible employees. Voluntary contributions are made by employees who choose to participate to the extent permissible by law. The Corporation makes no contributions under the plan and incurred no expenses during the years ended December 31, 2006 and 2005.

NOTE 10 CONTINGENCIES

As of December 31, 2006, the Corporation had exceeded the Federal Depository Insurance Corporation limit of \$100,000 on its depository accounts. At December 31, 2006, the Corporation had approximately \$308,000 on deposit in excess of federally insured limits.

SUPPLEMENTARY INFORMATION

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

SCHEDULES OF FUNCTIONAL EXPENSES
For the year ended December 31, 2006

	Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 1,585,584	\$ 186,539	\$ 93,270	\$ 1,865,393
Professional fees	84,762	5,410	-	90,172
Office expenses	64,267	12,853	8,569	85,689
Telephone	21,082	6,236	2,375	29,693
Postage and delivery	3,953	3,954	9,282	17,189
Occupancy	95,376	39,740	23,844	158,960
Membership	5,718	-	65,758	71,476
Maintenance and repairs	2,419	1,007	605	4,031
Promotion and publications	8,077	-	1,895	9,972
Travel and conferences	57,038	-	14,259	71,297
Advertising	423	-	1,692	2,115
Depreciation	18,466	7,694	4,617	30,777
Insurance	26,735	8,911	-	35,646
Program expenses	252,325	-	-	252,325
Bank and merchant fees	13,749	6,874	6,874	27,497
Other expenses	<u>11,660</u>	<u>3,890</u>	<u>-</u>	<u>15,550</u>
Total expenses	<u>\$ 2,251,634</u>	<u>\$ 283,108</u>	<u>\$ 233,040</u>	<u>\$ 2,767,782</u>

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)
For the year ended December 31, 2005

	Services	Program Administrative	General and Fundraising	Total
Salaries and benefits	\$ 1,638,456	\$ 192,759	\$ 96,380	\$ 1,927,595
Professional fees	447,950	28,593	-	476,543
Office expenses	12,420	6,210	6,210	24,840
Telephone	9,023	7,361	7,361	23,745
Postage and delivery	4,495	4,495	10,554	19,544
Occupancy	75,088	37,544	37,544	150,176
Membership	12,515	6,257	6,257	25,029
Maintenance and repairs	1,857	929	929	3,715
Promotion and publications	34,655	29,141	14,964	78,760
Travel and conferences	66,278	-	-	66,278
Advertising	719	-	-	719
Depreciation	12,627	6,313	6,313	25,253
Other expenses	<u>58,979</u>	<u>22,334</u>	<u>-</u>	<u>81,313</u>
Total expenses	<u>\$ 2,375,062</u>	<u>\$ 341,936</u>	<u>\$ 186,512</u>	<u>\$ 2,903,510</u>